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Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Labor Talks In 1986 Will Center . . .

Helped by the decline in December's unemployment rate to 6.9 percent, the jobless rate for all of 1985 was the lowest for any year since 1980. With over 108 million people working in December, America's labor force posted another record high for total employment and saw almost three million jobs added to nonfarm payrolls during the year. More than one million of those jobs were created in the services industry, and another 812,000 were added by the retail and wholesale trade sector. Employment fell, however, in the manufacturing and mining industries.

Given these divergent trends between the goods-producing and service-producing labor markets, 1986 looks to be another year of moderate wage increases for most of those workers whose unions will meet management at bargaining tables this year. Certainly, the loss of over 200,000 jobs in the nation's factories and mines in 1985 will weaken the bargaining positions of the aluminum, steel and farm machinery workers whose contracts expire in 1986. On the other hand, the healthy gains in state and local government jobs, coupled with budget surpluses in many states, might well help those 738,000 public workers covered by new labor accords this year.

To be sure, expectations of higher inflation and a lower exchange rate for the U.S. dollar should benefit, to some extent, all of the 3.8 million workers negotiating new collective bargaining settlements in 1986. However, gone are the days of the late 1970s and early 1980s when unions bargained for, and won, double-digit pay hikes for their members. In fact, 1986 is expected to follow 1985 as another year when the average wage increase for union workers falls below the rate of inflation. A shrinking membership base and high levels of unemployment have caused unions to become less aggressive bargainers than in the past. In 1985, strike activity fell to its lowest level on record with only 51 work stoppages. In the 1970s, unions organized an average of 289 strikes per year.

During the first nine months of 1985, major collective bargaining agreements covering 1,000 or more workers called for an average pay increase of 2.3 percent in the first year and 2.9 percent annually during the life of the contract. In contrast, the inflation rate during the same nine months was three percent. Moreover, 37 percent of the 1.6 million workers covered by the contracts signed between January and September agreed to either no wage change or to pay decreases in the first contract year.

Another important trend is the growing frequency of "back-loading" wage increases. This means wage adjustments are lower in the first year of a contract than in later years—a practice almost unheard of before 1983. During the first nine months of 1985, however, 726,000 workers, or 45 percent of those covered by new contracts, agreed to back-loaded settlements. The majority of these contracts were in the apparel, electrical machinery and construction industries.

. . . On Boosting Job Security . . .

It is clear that unions were more concerned about job security than hefty pay gains in 1985 especially in the ever shrinking manufacturing sector. This concern will not lessen in 1986 when labor and management bring differing contract objectives to the bargaining table. For management, the main goal will be holding down labor costs which account for two-thirds of all production expenses in the manufacturing sector. One way to achieve this is through the dismantling of cost-of-living adjustments (COLA) that tie automatic wage hikes to increases in the consumer price index or some other inflation measure.

Even now, COLA clauses are losing popularity. During the first nine months of 1985, they were dropped in contracts covering 327,000 workers, thus reducing the proportion of workers with COLA adjustments from 57 percent to 50 percent. Other objectives for employers will be the adoption of a two-tier wage system which would lower pay scales offered to new workers while the existing work force continues to receive the old wage package, and lump-sum payments tied to company or production-unit performance instead of the usual annual percentage wage jumps. This pay method has the advantages of linking pay with company earnings

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and avoiding any increases in costly fringe benefits.

Unions, on the other hand, will want contracts to include assurances of job security. Other labor demands may be drawn from a 1985 pact reached in the auto industry. Although described as a "special case" agreement between the United Auto Workers and one of the domestic manufacturers in an attempt to battle the cost advantages of foreign small car producers, this innovative contract possesses new approaches to labor relations which may influence negotiations in all industries in the future. These provisions include permanent job security, elimination of time clocks and greater labor participation in company decision-making.

In the months to come, public attention will likely focus on talks in the steel and communications industries. Unlike previous bargaining rounds when the steel companies formed a consortium to negotiate an industrywide contract, this time the United Steelworkers will negotiate separately with each of six major steel companies. For the Communications Workers of America, deregulation within the telephone communications industry will also change that union's bargaining pattern when the contract covering 500,000 of its members expires in August.

. . . And Holding Down Employment Costs

The retrenchment of unions has softened the upward trend in employment costs in industries with a strong union presence. Whereas in the 12 months ending in December 1981, the construction

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	1/8/86		
U.S. Gov'ts and Agencies Owned Outright & RPs	187.878	– 3.243	+34.511
Loans to Depository Inst.	.612	– 1.115	– 1.450
Float	1.126	– .519	– .077
Total Reserve Bank Credit	204.628	– 2.783	+18.135
Treasury Deposits with Federal Reserve Banks	4.140	– 1.505	+ .650
Currency in Circulation	196.315	– .962	+13.530
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	126.112	+ .488	+10.127
	1/1/86		
Member Bank Reserves:			
Total Reserves Held	47.240	+ 1.269	+ 6.027
Excess (Deficiency)	1.325	+ .495	+ .118
Net Free Reserves	.459	– .054	+ .444
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (12/30/85)	624.7	+ 8.2‡	+ 11.7‡
M2 (November '85)	2,547.0	+ 5.2	+ 8.6
M3 (November '85)	3,194.5	+ 6.6	+ 7.9
Domestic Nonfinancial Debt (3rd Q'85)	6,523.1	+ 11.7	+ 13.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/10/86	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.15%	7.26%	7.27%
* Federal Agencies	7.42	7.45	7.42
* Municipal Notes–High Grade (46% Taxable Equivalent)	9.63	9.72	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.80	7.91	7.95

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.60%	Feb.	7.75%
15- 29 days	7.70	Mar.	7.70
30- 59 days	7.75	Apr.	7.65
60- 89 days	7.75	May	7.65
90-179 days	7.67	Jun.	7.65
180-239 days	7.50	Jul.	7.60
240-270 days	7.50		

‡Industrial Paper–Prime			
30- 89 days	7.73%	†Federal Funds Effective Rate	7.85%
90-120 days	7.60		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 4,017	$ 3,961	$ 3,812
Gross National Product (1982 Dollars)*	3rd Q'85	$ 3,584	$ 3,557	$ 3,510
Percent Change, Annual Rate	3rd Q'85	3.0	1.1	2.1
Change in Consumer Prices*	Nov '85	7.2%	3.6%	2.4%
Change in Producer Prices*	Dec '85n	4.8%	9.6%	0.0%
Civilian Employment (Thousands of Persons) †	Dec '85n	108,206	107,969r	106,248r
Unemployment as % of Civilian Labor Force †	Dec '85n	6.9%	7.0%	7.2%
Personal Income*	Nov '85	$ 3,345	$ 3,326	$ 3,184
Leading Indicators Composite Index (1967=100)†	Nov '85	171.5	171.3	165.1
Industrial Production Index (1977=100) †	Nov '85	125.1	124.6	123.4
Net Change in Consumer Installment Credit †	Oct '85	$ 6.63	$ 11.53	$ 5.63
U.S. Merchandise Trade Balance †	Nov '85	–$ 13.68	–$ 11.45	–$ 10.22
Plant and Equipment Expenditures*	1st Q'86	$402.13(a)	$388.98(a)	$371.16
Private Housing Starts (Thousands of Units)*	Nov '85	1,547	1,761	1,600
New Construction Expenditures*	Nov '85	$ 348.2	$ 346.3	$ 313.1
Total Business Inventories †	Oct '85	$ 582.0	$ 578.9	$ 568.8
Total Business Sales †	Oct '85	$ 426.3	$ 429.0	$ 414.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

and durable manufacturing sectors saw wage and salary expenses skyrocket 8.8 percent and 9.2 percent respectively, in the 12 months ending in September 1985, the increases had dwindled to respective rates of 2.6 and 4.2 percent. In comparison, at the end of the third quarter, the industry with the highest yearly increase, 7.6 percent, was the finance, insurance and real estate sector where unionized employees account for only three percent of the work force.

Even a small boost in wages, however, can be detrimental to a company if it is not accompanied by a similar rise in output. Here, manufacturing performed better than the business sector as a whole. While productivity in nonfarm businesses rose 2.1 percent at a seasonally adjusted annual rate in the third quarter of 1985, manufacturing posted a 3.7 percent increase. Moreover, since output per hour outpaced compensation per hour in manufacturing, unit labor costs actually declined during the second and third quarters of 1985.

Historically, wage increases won by unions have affected the salary hikes of nonunion workers. However, the economy's change in emphasis from goods production to services has diminished this relationship. Since the end of 1983, year-over-year percentage wage increases for nonunion employees have surpassed those gained by union workers. What is more, while some experts predict union wages may increase about 3½ percent in 1986, white-collar, nonunion employees may find their paychecks rising between 4½ and six percent this year. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/25/85)	159,753	+ 1,530	– 2,036
New York City (1/1/86)	37,247	+ 2,382	+ 1,848
Commercial Paper (12/31/85)	293,876	– 940	+60,669

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/25/85)	255,090	+ 135	+ 2,198
New York City (1/1/86)	59,398	+ 853	– 3,252

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/25/85)	717,536	+ 3,006	+ 55,665
New York City (1/1/86)	157,950	– 1,374	+ 11,593

Financial Markets

	Friday 1/10/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.42%	+ .13	– .61
180-Day Bills†	7.68	+ .20	– .83
Longest Bills†	7.82	+ .19	– 1.28
Recent Issues:			
7⅞s 12/31/87	8.26	+ .22	
8⅜s 12/31/89	8.69	+ .28	
9½s 11/15/95	9.30	+ .25	
9⅞s 11/15/15	9.47	+ .18	
Municipals:			
Bond Buyer–20 Bond Index* (1/9/86)	8.04%	– .29	– 1.56
Blue List Total ($ Million)	$1,379	– $401	– $ 3
30-Day Visible Supply ($ Million)	$ 609	+ $ 72	– $927
Total	$1,988	– $329	– $930
Corporates:			
Moody's Aa Composite (1/9/86)	10.38%	– .31	– 2.05
30-Day Visible Supply ($ Million)	$1,185	+ $475	+ $624
Stocks:			
Dow-Jones Averages:			
Industrials	1,513.53	– 35.67	+ 295.44
Transportation	686.97	– 16.02	+ 111.45
Utilities	172.75	– 3.13	+ 25.49
65 Stocks	602.83	– 13.67	+ 109.22
Standard and Poor's 500 Stocks	205.96	– 4.92	+ 38.05
N.Y.S.E. Composite Index	118.82	– 2.68	+ 21.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	146,602	+44,362	+ 44,468

* 46% Taxable equivalent 14.89%.

† Bond equivalent.

International Rates

	Friday 1/10/86	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.75%	8.00%
1 month	8.19	7.90
3 month	8.19	8.00
6 month	8.25	8.00
1 year	8.44	8.06
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	9.20%	8.85%
Long Term (7 to 15 yrs.)	9.70	9.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/10/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.0199	50.1500
Canada	.7161	1.3965
Denmark	.1124	8.8975
France	.1325	7.5475
Germany	.4067	2.4590
Italy	.0005972	1674.50
Japan	.004943	202.30
Mexico	.002446	408.80
Netherlands	.3609	2.7710
Switzerland	.4789	2.0880
U.K.	1.4535	.6880

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